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# The PabstCity Redevelopment Project: Inflated Projections and Dubious Economic Assumptions

A report prepared for the City of Milwaukee Common Council,  
Committee on Zoning, Neighborhoods, and Development

The University of Wisconsin-Milwaukee  
Center for Economic Development

June 6, 2005

## **ABOUT THIS REPORT**

This briefing paper was produced at the University of Wisconsin-Milwaukee Center for Economic Development (UWMCED) as a pro-bono service to the Common Council of the City of Milwaukee, Committee on Zoning, Neighborhoods, and Development. This report seeks to provide council members with independent, non-partisan analysis of some of the key economic assumptions underpinning the PabstCity TID proposal, the biggest city funding ever proposed for a Milwaukee commercial project. The Center has not been compensated for the report, nor is the Center supported by any of the principals with interests in the project. The Center's participation is strictly in line with its mission: to contribute to informed public debate about issues of economic development policy in the city and the region. The analysis and conclusions in this report are solely those of the UWMCED, and do not necessarily reflect the views of the University of Wisconsin-Milwaukee, or any of the Center's sponsors.

The author of this report is Dr. Marc V. Levine, Professor and Director of the UWMCED. Pamela Fendt, a policy analyst at the Center, contributed research and analysis.

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## INTRODUCTION

PabstCity represents, according to its promoters, “one of the most significant economic development initiatives ever undertaken in our region,” generating economic benefits to “respond to many of the area’s priorities.”<sup>1</sup> Even after downscaling their original request for \$74.8 million in public money<sup>2</sup>, the developers’ request for \$39 million in city taxpayer subsidy is “the biggest city funding ever for a Milwaukee commercial development,”<sup>3</sup> a TID [tax increment district] “twice as large as any previous City of Milwaukee sponsored TID and greater than the previous seven City TIDs combined.”<sup>4</sup> The anchor attractions in PabstCity will be a “House of Blues” live-music venue, Sega’s Gameworks, and a “state-of-the-art 16 screen cinema complex.”<sup>5</sup>

Notwithstanding the enormous public expenditure involved, the city’s Department of City Development (DCD) has aggressively promoted the project –and recommended approval by the Redevelopment Authority and Common Council—*without providing a rigorous, independent analysis of the economic impact projections and market assumptions contained in the developers’ proposal.*<sup>6</sup> DCD did commission a “TIF Feasibility Report” from a consultant, S.B. Friedman & Company of Chicago, but the Friedman report explicitly relies on “market study information...produced on behalf of

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<sup>1</sup> The Ferchill Group, *Redevelopment of Milwaukee’s Historic Pabst Brewery: Tax Increment Financing Application* (January 25, 2005).

<sup>2</sup> Tom Daykin, “PabstCity request is too rich, city leaders say,” *The Milwaukee Journal Sentinel*, 28 July 2004.

<sup>3</sup> Tom Daykin, “Public tab for PabstCity now \$39 million; should city pick it up?” *The Milwaukee Journal Sentinel*, 29 January 2005. The proposed city subsidy, of course, is just one part of the public financing proposed by the developers: federal “new market” tax credits, as well as state brownfields grants, would bring the total public subsidy to around \$105 million, or around one-third of the project costs. The city would also add \$2 million for job training, bringing the total city subsidy to \$41 million.

<sup>4</sup> W. Martin Morics, “Comptroller Report on File 050073 TID 58—PabstCity,” 2 June 2005, p.4.

<sup>5</sup> The Ferchill Group, *Redevelopment of Milwaukee’s Historic Pabst Brewery*, Section A.

<sup>6</sup> DCD officials presented the PabstCity TIF plan for approval by the Common Council’s Zoning, Neighborhoods, and Development Committee on May 17, 2005, without any rigorous, independent market analysis or cost-benefit analysis. And on May 26, 2005, the city’s Redevelopment Authority (RACM) actually approved the TID and forwarded it to the Common Council for approval, again without ever seeing an independent analysis demonstrating the plausibility of the developers’ claims regarding the market for such a project and its potential economic impact.

the developer...[and] supplemental retail market information provided by the developer subsequent to the initial TIF application” – in other words, *no independent market analysis*.<sup>7</sup>

Such an independent economic impact and market analysis is, of course, crucial for the Common Council to adequately assess the risks of the proposed PabstCity TID, and to evaluate whether the promised economic development benefits are likely to materialize and be worth the public expenditure. Unfortunately, even a cursory review of the entertainment market in metropolitan Milwaukee and in comparable cities across the country, suggests that the market assumptions underpinning PabstCity are highly questionable, the projected economic impact vastly overstated, and the potential damage to local, non-subsidized entertainment businesses very real.

Indeed, in addition to our own analysis, the City Comptroller’s report and consultant’s study –finally released on June 2, 2005, only five days before the next scheduled meeting of the Zoning, Neighborhoods and Development Committee, *after* the first presentation of the PabstCity TID to the committee in mid-May, and *after* the approval of the plan by RACM on May 26—confirms serious weaknesses in the economic development analysis underpinning PabstCity.<sup>8</sup> *Our recommendation would be that the Common Council delay action on the PabstCity TID until the Department of City Development conducts (or the Common Council separately commissions) an extensive independent analysis of the economic development policy issues surrounding PabstCity.*

## KEY ECONOMIC ASSUMPTIONS OF THE PROJECT

The economic development logic, and specific claims, of the PabstCity project can be summarized succinctly:

- “When stabilized,” PabstCity will draw over 2.0 million visitors per year;<sup>9</sup>

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<sup>7</sup> S.B. Friedman & Company, *TIF Feasibility Report: Proposed Pabst City Redevelopment Project*, (May 4, 2005).

<sup>8</sup> W. Martin Morics, “Comptroller Report on File 050073 TID 58—PabstCity,” 2 June 2005; C.H. Johnson Consulting, *Final Report: Proposed Economic Development Project: Pabst City* (May 2005).

<sup>9</sup> The Ferchill Group, *Redevelopment of Milwaukee’s Historic Pabst Brewery*, Section A.

- 30% of the clientele of PabstCity attractions will be drawn from outside the metro Milwaukee area;<sup>10</sup>
- PabstCity will be a “regional attraction designed to capture some of the \$400 million in annual spending that drifts from southeastern Wisconsin to the Chicago area”;<sup>11</sup>
- “Nearly” 1,000 construction jobs will be created as PabstCity is built; “up to 1,100 new jobs will be created as a result of this urban renewal effort;”<sup>12</sup>
- When “multiplier” effects are calculated –accounting for direct, indirect, and induced impacts—PabstCity will produce 2,946 jobs during the construction phase, and 2,650 jobs once the project is operational.<sup>13</sup>

It is important for the Council to realize that these are not “hard” numbers, based on any real trends in tourism and entertainment in Milwaukee; they are projections based – we assume—on the type of “market study” that developers typically purchase from consultants to demonstrate the “feasibility” of their project. Indeed, when we look at *actual* visitor and expenditure numbers at tourism and entertainment attractions in Milwaukee and elsewhere, it becomes readily apparent that these numbers, at the very least, are based on a set of faulty assumptions and fallacious analysis.

Let’s look at each of the key economic assumptions and purported economic impact of PabstCity:

### ***Two million visitors?***

Project promoters claim that PabstCity will attract 2.0 million visitors annually. The basis of this projection is never provided. Nor do the promoters specify how many of these visitors will venture to downtown Milwaukee for the *explicit purpose* of visiting Pabst City. If the number is less than 2 million –which it most certainly is—then the net

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<sup>10</sup> Metropolitan Milwaukee Association of Commerce, *Economic Impact of PabstCity* (May, 2005), p. 1.

<sup>11</sup> Daykin, “Public tab for PabstCity now \$39 million,” 29 January 2005; Jerry Franke, statement before City of Milwaukee Common Council, Committee on Zoning, Neighborhoods, and Development, 17 May 2005.

<sup>12</sup> The Ferchill Group, *Redevelopment of Milwaukee’s Historic Pabst Brewery*, Section A.

<sup>13</sup> MMAC, *Economic Impact of Pabst City*, p. 1, 3.

economic gain to the city will be commensurately less than projected by PabstCity promoters. The net economic benefit of the facility for the city as a whole depends on how many visitors come to the city *explicitly* for PabstCity. If 2 million visitors are coming to downtown for other purposes, there is no net benefit for the city whether they spend money at PabstCity as opposed to other facilities or venues. The employment impact and spending multipliers will be precisely the same. Thus, the logic of public subsidy for PabstCity must be the claim that it will bring 2 million visitors to downtown Milwaukee *who would not otherwise be coming to downtown*, or at least to the region.

To get a sense of how optimistic this visitor projection is, let's look at a couple of other tourism and entertainment settings.<sup>14</sup> In Baltimore, the *ten* leading attractions in the city's Inner Harbor attracted 3.2 million visitors *combined* last year.<sup>15</sup> This in a city that has a 25 year history of tourism development, starting with the Rouse company's "Harborplace" in 1980, two downtown sports stadiums, a convention center almost twice the size of Milwaukee's, 20% more downtown hotel rooms, and the cachet of recently being named by Frommer's, a leading travel guide publisher, as "one of the top 10 'up and coming' summer travel destinations in the world."<sup>16</sup>

Similarly, in Montreal, a city with a long history as an international tourist destination, not a single individual venue –other than the Casino de Montréal—attracts more than 500,000 visitors annually.<sup>17</sup>

Closer to home, no entertainment or tourist attraction in the city of Milwaukee draws anywhere near the 2 million visitors projected for PabstCity. The Milwaukee Art Museum, buoyed by the international recognition garnered by the Calatrava addition, saw the number of visitors rise to 500,000 in 2003, but in 2004 the number of visitors declined by 34 percent to just over 300,000. The main reason given for the decline by

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<sup>14</sup> The C.H. Johnson consulting report for the Comptroller's office examines "urban entertainment destinations" in Baltimore, St. Louis, Phoenix, and Indianapolis.

<sup>15</sup> Baltimore Area Convention and Visitors Association, *Baltimore Tourism Monitor: 4<sup>th</sup> Quarter and Full Year 2004 Review* (January, 2005).

<sup>16</sup> *Baltimore Sun*, "Baltimore makes list of top 10 travel destinations," 26 May 2005.

<sup>17</sup> Tourisme-Montréal, *L'Indicateur plus: Bulletin statistique de l'industrie touristique montréalaise* (décembre 2004). The other "tourist installation" that attracts more than 1 million visitors annually is the Vieux-Port de Montréal, which is a large, waterfront recreational and tourist district, with bike paths, canals, hiking, and multiple attractions – very different than PabstCity.

museum director David Gordon is instructive: he noted that attendance has dropped “because the novelty of the new building has been on the wane.”<sup>18</sup>

Now, here’s a point to ponder as the Common Council contemplates approving a TID for PabstCity, a TID which, in order to be successful, would require the entertainment of PabstCity to remain attractive for at least 22 years. If the novelty of the Calatrava – the veritable icon of the new Milwaukee-- has worn off after only three years, does anyone really think that 2 million visitors will clamor year-after-year, for 20+ years, for admission to the movie theatres and game arcades of PabstCity?<sup>19</sup>

The example of Baltimore is, once again, instructive here. In 1985, United Artists opened a nine-screen “Harbor Park” cinema in the heart of the Inner Harbor tourist district, “hailed as the largest in one building in the Baltimore area and the first new movie palace to hit any downtown in years.”<sup>20</sup> In 2000, however, UA shut down the theater, claiming, “the company wasn’t making enough money at the location to remain open.”<sup>21</sup> At the very least, the Baltimore experience with a downtown cineplex should make Milwaukee policymakers cautious in approving a TIF plan that would rely on a downtown cineplex as its anchor. The C.H. Johnson study and Comptroller’s report echo this concern about the proposed tenant mix in PabstCity.

At the May 17, 2005 meeting of the Zoning, Neighborhoods, and Development committee, DCD Commissioner Marcoux objected to using Baltimore as a “comparable” to analyze PabstCity or other downtown Milwaukee development, claiming downtown Baltimore was a much “weaker” market than downtown Milwaukee. The Commissioner should look a little more closely at urban data. Downtown Baltimore has 29,998

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<sup>18</sup> Mary Louise Schumacher, “Calatrava fund raising goal met,” *Milwaukee Journal Sentinel*, 16 May 2005.

<sup>19</sup> The C.H. Johnson study of PabstCity, in fact, uses similar language to argue that “the pessimistic projection” of sales in PabstCity –rather than the optimistic one put forth by developers—is most plausible. “This [pessimistic] projection matches most closely with the utilization analysis. Therefore, rather than being pessimistic, this is the most likely scenario in the stabilized year (constant dollars), *after the novelty effect has worn off.*” (emphasis in original). C.H. Johnson report, Section 4, page 18.

<sup>20</sup> Lorraine Mirabella, “UA theater chain shuts downtown 9-screen cinema,” *Baltimore Sun*, 8 April 2000.

<sup>21</sup> Heather Harlan, “BCCC eyes theater property,” *Baltimore Business Journal*, 8 June 2001. According to local reports, “United Artists faced other problems...The entranceway to the theater, which also serves as access for an adjacent parking garage, became a dumping ground for trash as well as a gathering spot for loiterers and the homeless. And the theater was robbed multiple times.” *Ibid.*



residents, compared to 11,364 in downtown Milwaukee.<sup>22</sup> Downtown Baltimore had 3,085 households with annual income above \$75,000 in 2000, compared to 1,021 in downtown Milwaukee.<sup>23</sup> Downtown employment was 25% higher in Baltimore than Milwaukee in 2002, the most recent data available.<sup>24</sup> Downtown Baltimore, as noted earlier, has a much more densely developed tourist infrastructure than does downtown Milwaukee.

In short, the downtown Baltimore market is, by every measure, a more promising one for entertainment venues than downtown Milwaukee. Yet, the “Power Plant” location—a “historic site” with every similarities to PabstCity—endured twenty years of failed investments in “urban entertainment” before the successful—and highly subsidized--Cordish company development of the late 1990s.<sup>25</sup> And, as we noted above, if the Harbor Park movie theater didn’t make it financially, Milwaukee officials would do well to question closely PabstCity promoters and their supporters on what evidentiary basis there is to believe their plans—in a less prosperous downtown market here—would do better.

None of this “proves,” of course, that the estimate of 2 million visitors to PabstCity is inflated or that the rosy scenario for a downtown movie theater is erroneous. Perhaps PabstCity will draw 5,500 *new* spending customers a day to Milwaukee (without subtracting from other venues), even after its novelty fades. Perhaps there’s a better market for downtown movies in Milwaukee, with a smaller, less prosperous downtown, than in Baltimore. But, the burden of proof is on promoters to defend the plausibility of their numbers, and there is nothing in the material presented either to RACM or the Common Council to support these attendance projections. Given the Baltimore

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<sup>22</sup> U.S. Bureau of the Census, 2000. Census tract data collected at “American Factfinder,” [www.census.gov](http://www.census.gov).

<sup>23</sup> *Ibid.*

<sup>24</sup> Calculated from U.S. Bureau of the Census, *County Business Patterns*, zip code data, [www.census.gov](http://www.census.gov).

<sup>25</sup> The C.H. Johnson study claims that Power Plant attracts five million visitors annually (section 3, page 12), but it is unclear precisely what constitutes a “visitor” to the Power Plant: a “browser” at Barnes and Noble? A stroller through the arcade? Or a consumer at ESPN Zone? If a visitor patronizes all three, does that count as three visitors to the Power Plant? And, most importantly, to what extent are these visitors drawn to the Inner Harbor *explicitly* because of the Power Plant? In fact, the aggregate number of “visitors” to the Inner Harbor has actually declined in the years since the Power Plant and “Power Plant Live” opened. See June Arney, “Tourism slump makes presence known at harbor,” *The Baltimore Sun*, 29 December 2002. Finally, the C.H. Johnson study clearly regards the tenant mix and location of the Power Plant as superior to PabstCity, suggesting the limited utility in using the Power Plant success as an argument in favor of a PabstCity TID (section 3 page 14).

experience –as well as the experience recently in Boston, where opening of Loews’ Boston Common megaplex has resulted in the shutdown of other downtown theaters-- there is reason to question the economic logic of a \$39 million TIF plan to support, in part, a downtown movie theater.

### ***30 percent of PabstCity visitors from outside Milwaukee?***

The other key claim made by promoters regarding visitors is that 30 percent of PabstCity’s clientele will come from outside metropolitan Milwaukee. Why is this a crucial issue? Because it is axiomatic in economic impact analysis that unless an investment generates what economists call “net exports” –in the case of tourism or entertainment, this means “outside” dollars coming into the community—then the investment will not generate any net gain for the community, as consumers simply substitute spending on one entertainment activity for another. This “substitution effect,” of course, is what has so many operators of entertainment venues in Milwaukee concerned about the potential impact of PabstCity on their business. Clearly, both Commissioner Marcoux and Wispark’s Jerry Franke understand the importance of this issue: at the May 17 meeting of the Zoning, Neighborhoods, and Development committee, both Marcoux and Franke stressed over and over that PabstCity aims to “grow the size of the [entertainment] pie” in Milwaukee.<sup>26</sup>

There are only two ways to “grow the pie” for a region’s entertainment sector. One is to raise overall incomes, since households spend a relatively fixed percentage of their disposable income on entertainment. According to the federal Bureau of Labor Statistics’ *Consumer Expenditure Survey*, the most reliable source on *actual* (not projected) spending by households, the average metro Milwaukee household spends around \$530 a year (or 1.1 percent of pre-tax income) on entertainment “fees and admissions”: this includes expenses for out-of-town trips, fees for recreational lessons, and the cost of admission to sporting events, cultural and theatrical events, the movies, and special

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<sup>26</sup> This repeated Franke’s assertion in January 2005 that “we firmly believe we are growing the size of the pie,” not simply shifting entertainment expenditures from Brady St. or other entertainment areas, to PabstCity. See Daykin, “Public tab for PabstCity now \$39 million,” *Milwaukee Journal Sentinel*, 29 January 2005.

events, such as live musical performances.<sup>27</sup> Thus, in the aggregate, Milwaukee households spend a little over \$395.4 million annually on entertainment fees and admissions. One way to grow the local entertainment market would be to raise household income in the region; expenditures on entertainment would commensurately increase.<sup>28</sup> Clearly, there is nothing in the PabstCity plan that would generate this kind of regional income growth, nor have the promoters claimed that household income—which has been relatively stagnant in Milwaukee over the past decade—would increase as a consequence of PabstCity. Indeed, given the preponderance of low-wage jobs envisioned for PabstCity, it is illogical to assume the project will raise median household income in Milwaukee, and the profits of local developers and salaries of employees of local developers—no matter how high they may turn out to be-- will not have a meaningful effect on median household income or aggregate consumer patterns in the region.

The other way to “grow the [entertainment] pie” would be to bring new consumers to Milwaukee, and this is the cornerstone claim of PabstCity promoters: that 30% of its clientele, or approximately 600,000 visitors annually, will come to Milwaukee from outside the metropolitan area. How plausible is this projection?

First, the developers and promoters present no credible evidence of comparable facilities, in cities comparable to Milwaukee, drawing that proportion of out-of-town clientele *explicitly for the purpose of visiting the facility*. In the C.H. Johnson study prepared for the Comptroller, the claim is made that between 35-50 percent of the five million alleged visitors to Power Plant are from outside Baltimore, and 65 percent of Power Plant Live!’s two million alleged visitors are from outside Baltimore.<sup>29</sup> If this volume of out-of-town visitors is, in fact, descending on downtown Baltimore, lured by the Power Plant(s), they curiously appear *NOT* to be staying in the city’s hotels. Between 1996-2002, according to the Census Bureau’s *County Business Patterns*, hotel

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<sup>27</sup> Bureau of Labor Statistics, *Consumer Expenditure Survey, 2002-2003*; Table 22: Selected Midwestern metropolitan statistical areas: Average annual expenditures and characteristics; and Table 32: Midwestern region, by income before taxes: Annual average expenditures and characteristics; [www.bls.gov](http://www.bls.gov). See also Neil Tseng, “Expenditures on Entertainment,” [www.bls.gov/cex/anthology/csxanth10.pdf](http://www.bls.gov/cex/anthology/csxanth10.pdf).

<sup>28</sup> According to the *Consumer Expenditure Survey*, households earning over \$70,000 annually spend \$1,328 annually on “fees and admissions,” compared to \$166 annually for households with annual incomes between \$10-20,000.

<sup>29</sup> C.H. Johnson, *Final Report: Proposed Economic Development Project: PabstCity*, (section 3, page 12).

employment in Baltimore *declined* by 12.9 percent.<sup>30</sup> The inescapable conclusion is that the out-of-town visitor figure is vastly inflated.

To our knowledge, no venue in Milwaukee draws anything close to 30 percent of its visitors from outside the region. The Calatrava, with all its national and international publicity and iconic status, draws substantially less than 30% of its visitors from outside Milwaukee. Events such as the Wisconsin State Fair and Summerfest draw close to that figure, but these are once a year “special events,” with state-wide and civic participation and sponsorship.<sup>31</sup>

Second, the projection of “600,000 outside visitors” rests on some dubious assumptions about the nature of the tourism and conventions industry in Milwaukee. As Table 1 shows, the performance of Milwaukee’s convention industry is in something of a free fall. Incredibly, room night bookings for conventions in Greater Milwaukee have *fallen 31.7 percent* since the Midwest Airlines Center opened in 1998. There have been annual *decreases* in convention room night bookings in five of the six years since the Midwest Airlines Center has been in operation. Needless to say, this is far below the projections offered by consultants in their feasibility study that helped justify a \$151 million public “investment” in a new convention center – which ought to give Milwaukee decision-makers pause every time they are presented with such tainted feasibility or economic impact studies. Indeed, the most recent room night bookings in local hotels for conventions are less than one-half the projection offered in an analysis of the convention center prepared as recently as 2002 for the Greater Milwaukee Convention and Visitor’s Bureau – another warning sign on the reliability of development-industry consultants.<sup>32</sup> Small wonder that hotel employment in Milwaukee County is down by over nine percent *since* 1998 – the year the Midwest Airlines Center opened.<sup>33</sup>

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<sup>30</sup> U.S. Bureau of the Census, *County Business Patterns*, [www.census.gov](http://www.census.gov).

<sup>31</sup> UW-Milwaukee Center for Economic Development, *The Economic Impact of the 2001 Wisconsin State Fair* (30 July 2002).

<sup>32</sup> HVS Convention, Sports, and Entertainment, *Market and Feasibility Study: Phase III Expansion, Midwest Express Center*, section 6-22.

<sup>33</sup> U.S. Bureau of Labor Statistics, *Quarterly Census of Employment and Wages*, [www.bls.gov](http://www.bls.gov).

### Convention Room Nights Booked In Milwaukee, 1997-2003

Year	Convention Room Nights booked	% annual change
1997	187,643	n.a.
1998	167,880	-10.5%
1999	159,491	-5.0%
2000	406,945	155.2%
2001	140,428	-65.5%
2002	139,894	-0.4%
2003	114,540	-18.1%

Source: Metropolitan Milwaukee Association of Commerce

None of this is surprising: a recent study by the Brookings Institution has documented the over saturation and stagnation in the convention business across the country; Milwaukee is in “good company” with an underperforming, “white elephant” of a convention center.<sup>34</sup> But these numbers suggest that there is *not* a robust or growing tourism and conventions market in Milwaukee, ready to embrace PabstCity as the next step in the city’s emergence as a major urban tourism destination. On the contrary, the tourism and convention market here is in deep difficulty. In short, to the extent that PabstCity’s promoters are relying on a robust tourism market in Milwaukee, then the prospects for success at PabstCity are dubious indeed.<sup>35</sup>

Finally, there is at least some evidence nationally of a slowdown in job growth in the entertainment sector, a sign that the current market may not be propitious for a

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<sup>34</sup> Heywood Sanders, *Space Available: The Realities of Convention Centers as Economic Development Strategy* (Washington, D.C.: The Brookings Institution, 2005).

<sup>35</sup> Moreover, the degree to which conventioners are likely to spend money on local entertainment venues is much lower than might be thought – 75% of conventioner spending is on lodging and meals. See Marc V. Levine, “Tourism Infrastructure and Urban Redevelopment in Montreal,” in Dennis Judd (ed) *The Infrastructure of Play: Building the Tourist City* (Armonk, N.Y.: M.E. Sharpe, 2003), p. 257.

development such as PabstCity, purporting to draw thousands from outside the region. As *Business Week*, hardly an anti-developer publication, recently noted:

Which part of the economy is losing jobs the fastest these days? Surprise – it’s the arts, entertainment, and recreation sector, which is down by 48,000 jobs over the past year. Americans seem to be more interested in listening to their iPods, browsing the Internet, and enjoying their big-screen TVs than in playing golf or going to live performances. Even casino employment is lower than it was a year ago.<sup>36</sup>

In other words, given trends in the national market, the timing for PabstCity may not be propitious. While the arts, entertainment, and recreation sector experienced robust growth in the 1990s –almost tripling the rate of national employment growth between 1990-2004—PabstCity may be coming along just at the time when this sector has already lost considerable steam, rendering even more implausible the projection by promoters of 600,000 visitors annually coming to Milwaukee for the *explicit purpose of* watching a movie or playing video games at PabstCity. At a minimum, the burden of proof is on the developers and promoters to demonstrate that PabstCity is not swimming against the tide of national economic trends, and none of the materials submitted to the Common Council meet that burden.

### ***Capturing entertainment “leakage” to Chicago?***

Another way that PabstCity promoters insist the project will “grow the pie” in Milwaukee, and not simply take business away from other entertainment venues here, is by keeping in Milwaukee some of the \$400 million that the promoters allege is spent by Milwaukee area residents on entertainment in Chicago. This is, however, a flawed argument, on two levels.

First, the promoters provide no evidence for the \$400 million figure. Indeed, the figure strains credulity. As we noted earlier, according to the federal *Consumer Expenditures Survey*, metro Milwaukee households spend, in *total*, around \$395.4 million on entertainment “fees and admissions,” which include expenses for out-of-town trips, fees for recreational lessons, and the cost of admission to sporting events, cultural and

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<sup>36</sup> *Business Week*, “Where the Jobs Aren’t,” 18 April 2005, p. 18.

theatrical events, the movies, and special events, such as live musical performances. Thus, the “\$400 million in Chicago” figure appears completely fanciful, unless the promoters are including in it retail purchases made in the Chicago area (e.g. Michigan Avenue, Gurnee Mills, etc.), not simply entertainment expenditures. But, if so, then promoters need to demonstrate how attending a movie or playing a video game at PabstCity will somehow displace outlet mall shopping at Gurnee Mills, or a shopping spree in downtown Chicago, something they have failed to do.

Second, to the extent there is any logic to this Chicago argument at all, the promoters seem to assume that entertainment expenditures are fungible rather than segmented. In other words, if a Milwaukee family intends to visit Chicago to see the Museum of Science and Industry, the Navy Pier, the Field Museum, the Art Institute, or some uniquely Chicago attraction, are they likely to turn around and say: “Hey, why don’t we go to a movie at PabstCity instead?” The likelihood of such fungibility seems low and, in any event, must be demonstrated by the promoters. In the absence of such data from the promoters, we can no more assume that PabstCity will capture some of the Chicago market any more than we can assume that the existence of PabstCity will dissuade Milwaukeeans from spending their entertainment dollars in Orlando, Las Vegas, Paris or anywhere outside the region.<sup>37</sup> It is incumbent upon the promoters of PabstCity, in asking for such substantial public subsidies, to *demonstrate* that their proposed tenant mix and attractions will appeal to a significant segment of the market of Milwaukeeans who spend entertainment dollars in Chicago –whatever the size of that market. None of the materials presented to the Common Council by the promoters provide this evidence.

In short, the claim that the Milwaukee entertainment market will grow as PabstCity cuts into the Chicago entertainment expenditures of Milwaukeeans is: a) not demonstrated at all by the promoters; and b) not plausible, given the *actual* data we have on entertainment spending in Milwaukee.

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<sup>37</sup> There is no way to be certain, but it seems inconceivable that a movie theatre, gameworks, or “House of Blues” would persuade more than a handful of Milwaukee households annually to forego an entertainment-motivated trip to Chicago.

### *Jobs and spending impact of PabstCity : The MMAC “Economic Impact” Study*

At the May 17 meeting of the Zoning, Neighborhoods, and Development committee, members were presented with a four page report from the Metropolitan Milwaukee Association of Commerce, purporting to show that PabstCity would produce 2,946 construction phase jobs (generating \$111.6 million in worker earnings) and 2,650 jobs (generating \$54.7 million) in “on-going” benefit through the direct, indirect, and induced impact of PabstCity businesses.<sup>38</sup> The MMAC “study,” however, commits several of the most common errors of economic impact studies. The MMAC report:

- Significantly overstates the degree to which the facility is likely to attract tourists, thus overstating, in economics jargon, the “net exports” arising from the facility (and hence its true impact on the Milwaukee economy);
- Probably overstates the degree to which income generated at PabstCity is retained in the local economy (this will depend on the tenant mix and geographical location of ownership);
- Does not calculate, and thus fails to subtract from the final economic impact, opportunity costs of the project (defined by economists as “the sacrifice in other outputs that is necessary to undertake the investment”).<sup>39</sup>

In other words, for TID58 as well as the other public subsidies afforded PabstCity to make sense, the project must generate *net benefits that exceed the alternative uses*. PabstCity must be more attractive than an equal investment in schools, streets, transit, or subsidies for other private businesses. The “opportunity cost” in subsidizing PabstCity, therefore, is not simply the cost of the public subsidies, but the benefits from the other ways this money could be spent.

Fortunately, even though MMAC report ignores the basic economic concept of “opportunity cost,” the City Comptroller’s letter on PabstCity does not: “Given existing City financial constraints and other competing needs, **this level of expenditure will**

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<sup>38</sup> MMAC, *Economic Impact of Pabst City*, p. 1-3.

<sup>39</sup> Roger G. Noll and Andrew Zimbalist, “The Economic Impact of Sports Teams and Facilities,” in Noll and Zimbalist (eds), *Sports, Jobs, and Taxes* (Washington: The Brookings Institution, 1997), p. 60.



**necessarily result in the deferral or elimination of other worthwhile City projects or a sizable increase in City debt. Hence we strongly urge your careful consideration of the above in your Committee’s deliberations.”<sup>40</sup>** We completely concur with the Comptroller’s recommendation.

We have already documented the degree to which the PabstCity promoters have overstated the likely “net exports” generated by the project, and, as noted above, the MMAC impact study repeats this error. Let us review one particularly egregious example of how this mistake leads to ludicrous estimates of economic impact in the MMAC report.

Using the promoters’ estimate of 600,000 annual visitations from outside the metro Milwaukee area as a starting point, MMAC then takes tourist spending estimates from the Davidson-Peterson analysis provided the Wisconsin Department of Tourism to assert that 58% of these visitors, or 348,000, will stay overnight – in other words, 348,000 genuine tourists.

There at least two problems here. First, the Davidson-Peterson numbers are highly suspect. For example, Davidson-Peterson figures show a 16.6 percent increase in real tourist expenditures in Milwaukee County between 1998-2003 (a 31.6 percent increase in nominal dollars); yet, hotel employment declined by nine percent in the county during this period. Where were all these tourists staying? Clearly, the Davidson-Peterson estimates of tourist expenditures in Milwaukee are seriously inflated.

Second, the application of the Davidson-Peterson formula –not based on a real counting of real tourists—then leads MMAC to calculate that tourists visiting PabstCity would spend \$30.3 million annually on lodging and generate 511 hotel jobs in Milwaukee, accounting for fully 27 percent of the predicted total employment impact of PabstCity. Presuming that the vast majority of these hotel jobs would be in Milwaukee County (most proximate to PabstCity), this “projection” would imply a 14 percent increase in the county’s base of hotel jobs, simply as a result of PabstCity. To our knowledge, no comparable sized entertainment project in any comparable city has had even remotely that impact; in fact, as we have seen, the financially successful Power

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<sup>40</sup> W. Martin Morics, “Comptroller Report on File 050073 TID 58—PabstCity,” 2 June 2005. p.4. Emphasis in original.

Plant has not positively influenced hotel employment in Baltimore, and in Milwaukee, the convention center has completely failed to generate hotel employment. It is not plausible to believe that enough tourists, traveling to Milwaukee *explicitly* to visit PabstCity’s movies, music, or games, would produce this level of impact on the area’s hotel sector, yet that is what the MMAC impact report claims.

This last point is important, because it is inappropriate for an economic impact study to attribute a net benefit to a particular facility unless visitors come to a region explicitly for that facility.<sup>41</sup> If a professor is in Milwaukee for a conference at UWM, and takes in a movie at PabstCity before returning to the hotel, it is incorrect to attribute the impact on Milwaukee hotel spending to PabstCity.<sup>42</sup> If clients of a Milwaukee law firm are in town to discuss pending litigation and decide to relax at Gameworks after their meeting before returning to their hotel, this too is not an economic impact of PabstCity. Yet, in its wildly inflated estimate of the impact of PabstCity on hotel employment, the MMAC report inappropriately attributes all of these net benefits to PabstCity.

In short, the MMAC impact study is fatally flawed and useless as a guide to policymaking. It contains several methodological flaws. It piles questionable assumption upon questionable assumption to generate dubious job and spending impact figures that strain credulity when compared to actual employment and spending numbers in sectors such as hotels and entertainment in Milwaukee. Our recommendation is that the Council can safely ignore the MMAC report.

## CONCLUSION

This report has examined some of the central claims regarding the potential economic impact of the PabstCity project and probed the key market assumptions underpinning the project. We conclude that:

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<sup>41</sup> This is, as Noll and Zimbalist point out, a common error in impact studies. See Noll and Zimbalist, p. 69.

<sup>42</sup> In the absence of PabstCity, the professor might have gone to the Oriental theater for a movie instead; thus, the net impact on the Milwaukee economy would be precisely the same (in jobs and spending) – PabstCity or not—with no net export created by the existence of PabstCity. Only if the professor had come to Milwaukee explicitly for PabstCity would a net benefit be created for the city’s economy.

- Estimates of 2 million annual visitors and 600,000 annual tourists are wildly exaggerated and unsupported;
- There is little evidence of a market of tourists who will be drawn to Milwaukee *explicitly* for the purpose of visiting PabstCity;
- Milwaukee’s tourism and conventions market is in deep difficulty, and unlike other urban entertainment destinations such as Baltimore’s Power Plant, PabstCity would be developing in a less-than-robust tourist market environment;
- There is no evidence of a huge, untapped market of “leaked” Milwaukee-area entertainment dollars to Chicago that Pabst City is likely to attract;
- Thus, the likelihood is that a substantial majority of the expenditures at PabstCity will be “substitution effect” expenditures, drawing entertainment dollars away from other local venues. There is little evidence that PabstCity will “grow the pie;”
- The job and spending impact estimates provided by MMAC, building on the original estimates by the project developers, are severely flawed and can be safely ignored by policymakers.

Our reservations are generally consistent with those expressed in the C.H. Johnson study prepared for the City Comptroller (although even here, we believe that the Johnson study is overly optimistic –even in its so-called “pessimistic but likely scenario”—in the number of tourists it believes will be drawn to PabstCity).

We have not examined a host of other questions that are clearly germane to the Council’s deliberations on PabstCity. These include:

- The quality of jobs created at PabstCity and whether rigorous cost-benefit analysis would justify public subsidies for low-wage, cyclical jobs that do little to promote overall economic development;
- The questions surrounding use of such a massive TID, including whether the project is market-driven or market-distorting, and whether a TID of this nature will ultimately distort city budgetary and neighborhood development priorities;

- The appropriateness of what some analysts call a “Carnival City” style of urban economic development.<sup>43</sup> Should cities invest in entertainment development, or invest in other forms of economic development that are more promising strategies for raising household income which, in the long run, would promote entertainment development via market forces? Should cities like Milwaukee allocate huge public resources for tourism and entertainment facilities, with any gains from the projects (as in a TIF plan) poured back into paying off the project instead of enhancing the long-term fiscal needs of other sectors of the community (schools, parks, streets, etc.)? **In the end, does the “Carnival City” strategy pay off fiscally for cities, and will it pay off for Milwaukee? That larger public policy debate should frame discussion of the PabstCity project.**<sup>44</sup>

**We urge the Common Council to fully consider these issues as well, and to solicit research and analysis on them.**

In the last analysis, we believe that serious questions remain about the viability, impact, and appropriateness of the PabstCity project and much more study and debate is necessary. PabstCity is a risky project with multiple economic weaknesses and questionable public benefits. There has been a “rush to development” on the part of DCD; as stewards of the public interest, the department should be conducting much more extensive and probing economic analysis of the project.

During the May 17 hearing of the Zoning, Neighborhoods, and Development committee, Alderman Bauman asked critics of PabstCity a crucial and appropriate question: If not PabstCity, what alternatives would you propose for the site? That’s the right question, but Alderman Bauman should have posed it to DCD officials. As this report has noted, and as the City Comptroller’s letter implied, good economic

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<sup>43</sup> See David Barringer, “The New Urban Gamble,” *The American Prospect* (September/October, 1997): 28-34.

<sup>44</sup> On these questions, the C.H. Johnson report prepared for the City Comptroller is less than satisfactory, as it only examines the conditions for success of urban entertainment destinations comparable to PabstCity in other cities, not whether, even if financially successful, such investments warrant public subsidy because they contribute to the overall goals of economic development in cities (i.e. raising resident incomes, providing revenues to support public services, improving competitiveness and prospects for growth, attracting talented and productive new residents, etc.).

development policymaking requires systematic analysis of “opportunity costs;” this includes alternative redevelopment scenarios or investment strategies for the site, as well as, in the Comptroller’s words, weighing the value of this project against “deferral or elimination of other worthwhile City projects.” Clearly, the City has not yet conducted this kind of rigorous economic analysis; yet such analysis will be crucial for the Common Council to make a wise decision on PabstCity and other economic development investments in the years to come.